



VENTURE DESIGN

TOOLKIT



REVIEW

TRANSIENT ADVANTAGE

Competitive advantages go through a recognizable series of phases:

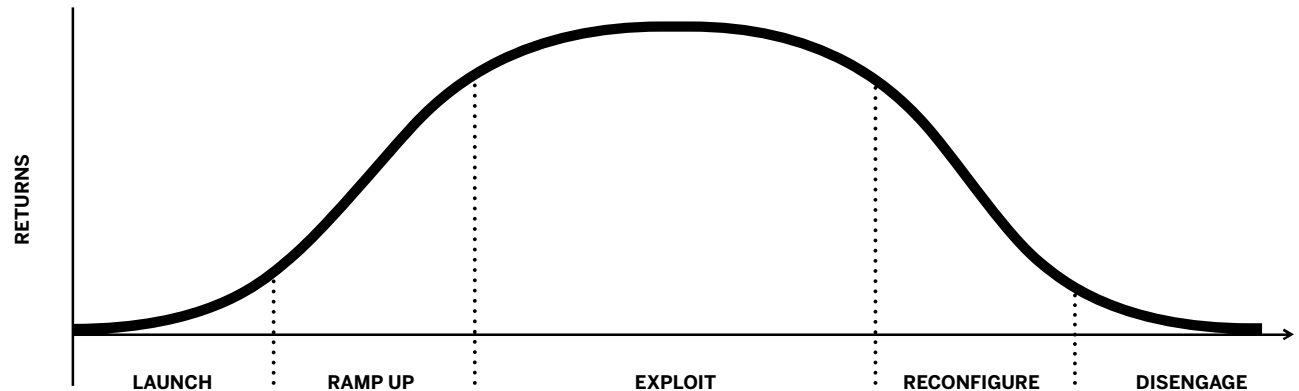
First they **launch** as the organization identifies an opportunity and mobilizes the resources to capitalize on it.

Next is a **ramp up** of the business idea & infrastructure to bring it to scale.

Then, the organization moves into a phase of **exploitation**, leveraging the advantage to capture profits and market share.

When the advantage weakens, the organization moves into a **reconfiguration** phase to extend the returns.

Sometimes the advantage is completely eroded, and the organization needs to **disengage** and reallocate its resources to a next opportunity and advantage.



To learn more about Transient Advantage and its implications, refer to the section of our course titled *Succeeding with Transient Advantage*. Framework based on Rita McGrath's *The End of Competitive Advantage*



EXAMPLE

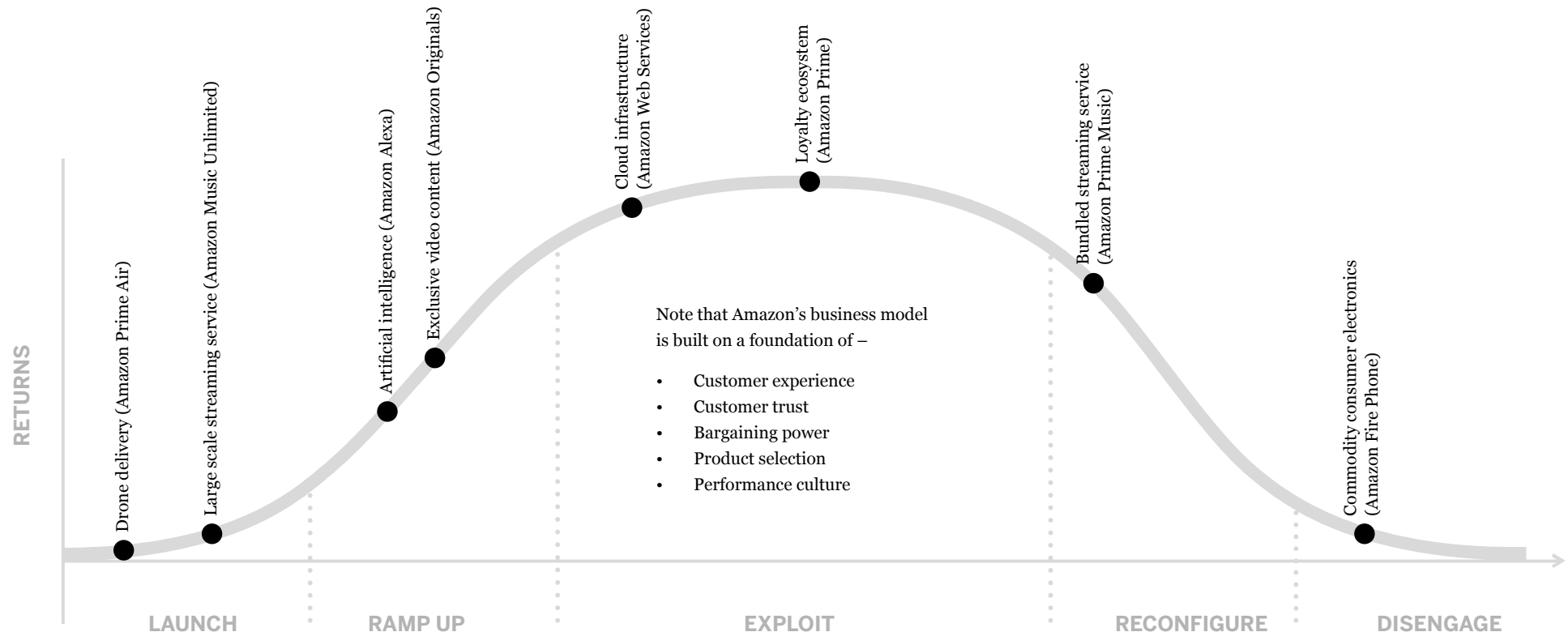
TRANSIENT ADVANTAGE

What would Amazon do?

Amazon provides an interesting example of a company succeeding through the pursuit of numerous advantages. They're presently exploiting their exceptional customer experience, unparalleled bargaining power, massive product selection, deep consumer trust and intense performance culture with great success.

In addition to these more foundational advantages, they're presently at various stages with newer or more rapidly erodible advantages, as mapped out below. For more information, Google any one of the named services, or refer to this older, but still helpful [infographic](#).

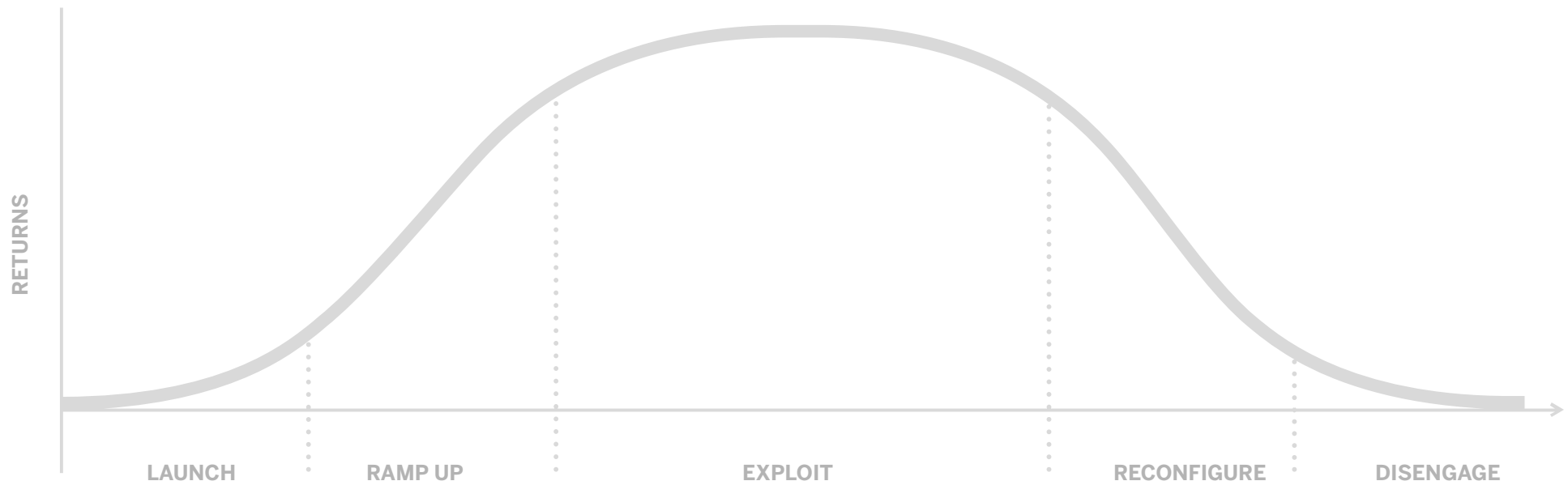
Note that without internal data, these mappings are qualitative, somewhat subjective, and will change over time (that's the transience of Transient Advantage). This mapping was sketched in November 2016.





This exercise can be done individually, or as a team to promote discussion, debate, and alignment.

- 1** Write as many of your organization's advantages as you can think of, one per Post-It. If you're coming up short, answer these questions to prompt ideas: What are the advantages that your company is exploiting or would like to exploit? Are there initiatives underway that could add new advantages to the portfolio? What advantages do you have in your technology, marketing, sales, customer experience, loyalty programs, distribution, partnerships, operations, production, etc.?
- 2** Select the top 5–7 most impactful advantages, reflecting their importance to the current or future business, then position them on the curve according to their development stage. If you have some stages that are empty, review your pool for candidates. It's healthy to have a distribution of advantages across the curve—new ones in development, current ones that are being exploited at the core of the business today, and older ones that you're transitioning out of.
- 3** Review your map and consider the opportunities and vulnerabilities it may expose. For example, if you have no new advantages in development, and most of your advantages are maturing in the exploitation phase, you may need to redouble innovation efforts. If you're heavily invested in developing new advantages, but have few that you can presently exploit, you may need to consider how to shorten the ramp up period for the new advantages in development.





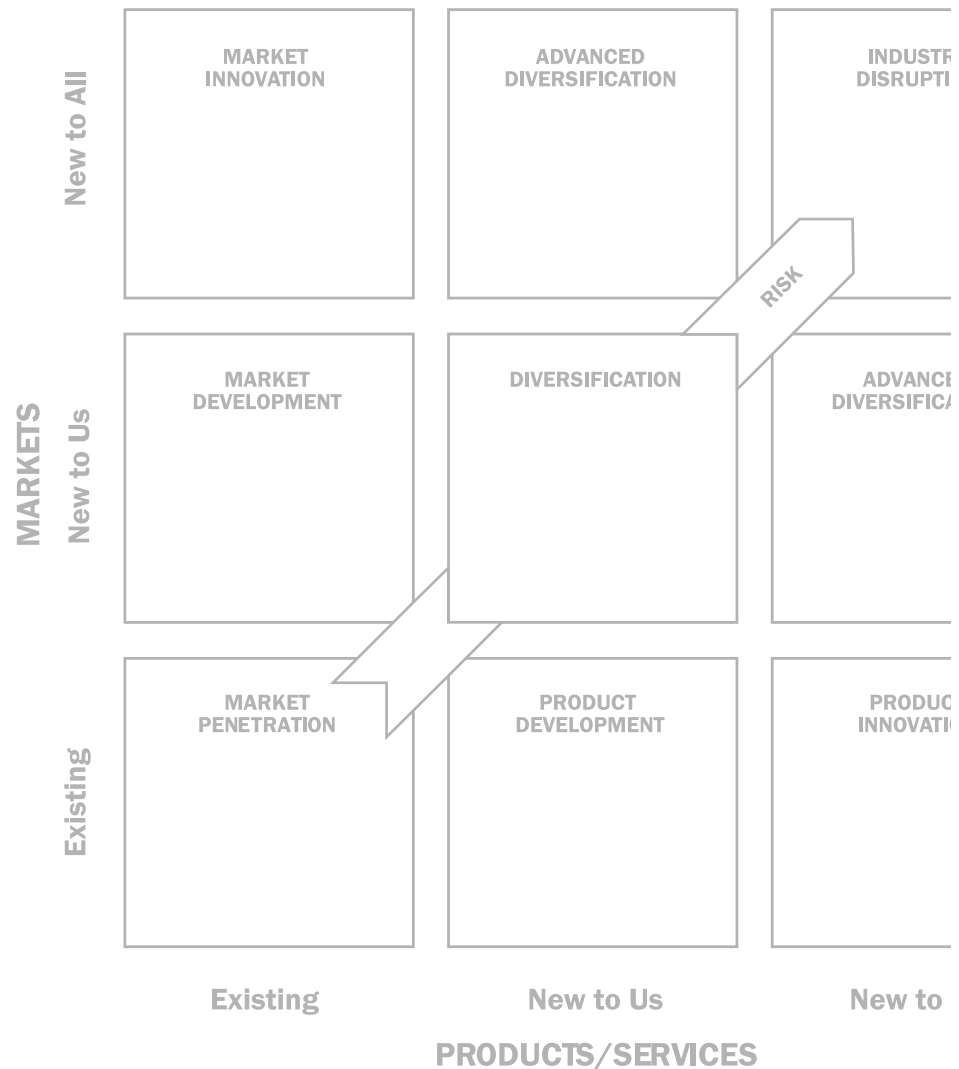
REVIEW

ANSOFF MATRIX

The Ansoff Matrix is a classic strategic planning tool that helps devise and map growth initiatives. The vertical axis on the matrix represents our markets and the horizontal axis our products & services. Each sector corresponds to a different product-market strategy, and risk increases as we progress along each of our axes.

- When using our existing offerings in our existing markets, we're pursuing a **Market Penetration** strategy.
- When using our existing offerings in a market that we're not presently in, we're pursuing a **Market Development** strategy.
- When using new offerings in our existing markets, we're pursuing a **Product Development** strategy.
- When presenting new offerings in a market that we're not presently in, we're pursuing a **Diversification** strategy.
- In today's competitive environment, we're increasingly moving beyond products and markets that are new to our own organization and therefore need to be "developed" to ones that are new to the world and need to be "innovated". We move beyond Market Development to **Market Innovation**, and beyond Product Development to **Product Innovation**. It also gives us **Advanced Diversification**, where we're combining both Development and Innovation, and outright **Industry Disruption**, where we're innovating deeply on both market and offering.

To learn more about the Ansoff Matrix and its use, refer to the section of the course titled *Aligning Innovation & Growth Strategy*





EXAMPLE

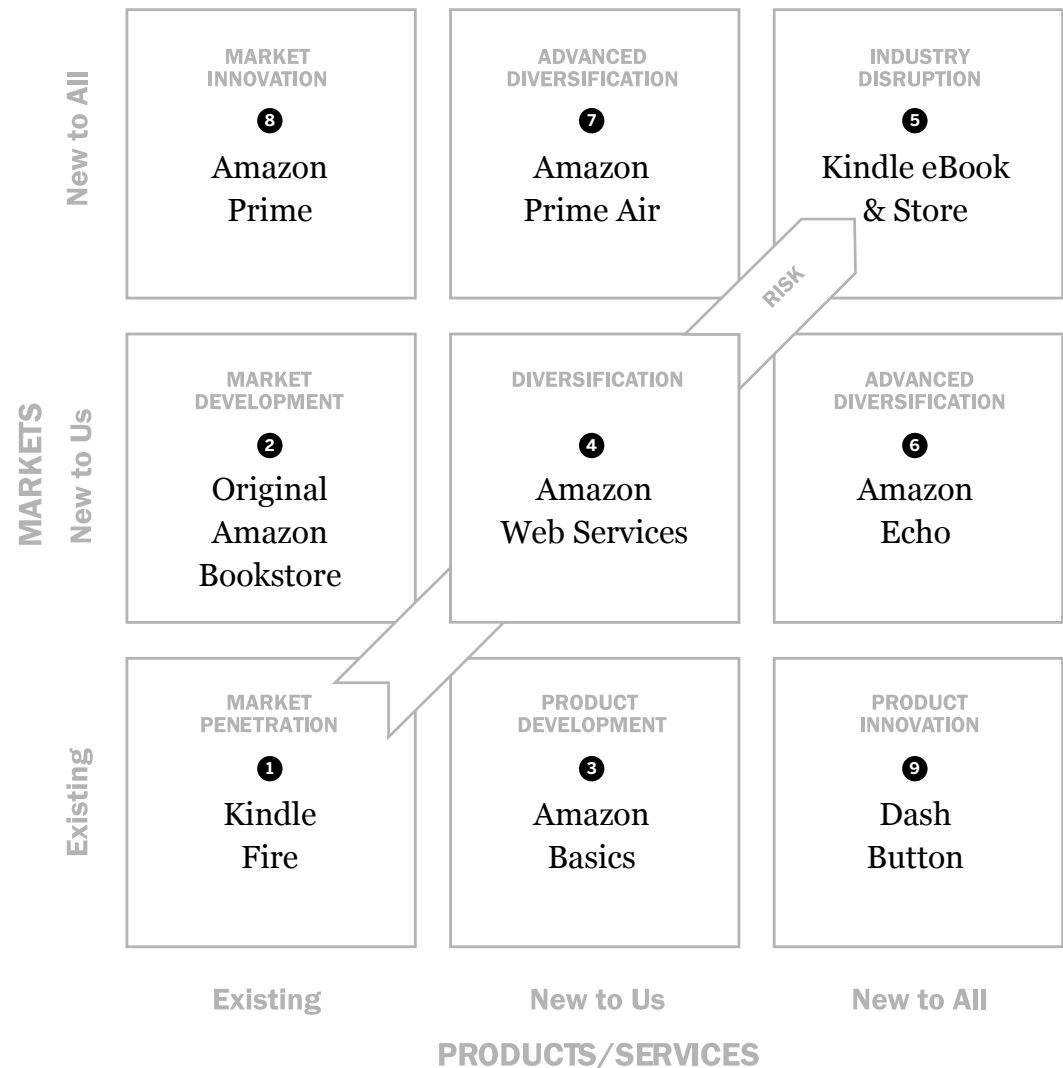
ANSOFF MATRIX

What would Amazon do?

Amazon is known for its aggressive and innovation-heavy growth strategy. Amazon didn't simply diversify beyond selling books to being "the everything store" – they went into digital media, with eBooks, streaming music and streaming video. They went into consumer electronics, with the Kindle Fire, the Fire Phone, the Echo, Tap, Dot, Dash and Dash Button. They went into logistics—hosting other businesses within their own warehouses and distribution networks. They developed an excellence in IT, and later launched Amazon Web Services, turning another core competency into a service offering.

In short, Amazon is a great business to map on the Ansoff Matrix, and we've done this here.

- ❶ Kindle Fire – **Market Penetration** with a new generation of product in a category where Amazon had already established the original Kindle line.
- ❷ Original Amazon Bookstore – **Market Development** for online book sales. Others were already doing this, but not with the scale or scope envisioned by Bezos.
- ❸ Amazon Basics – **Product Development** to create private-labeled essentials.
- ❹ Amazon Web Services – **Diversification** from retail into services. Others were already providing these services, but it was both a new market and a new service for Amazon.
- ❺ Kindle eBook & Store – **Industry Disruption** with an unprecedented product in an undiscovered market. (Subsequent, incremental Kindle launches don't qualify.)
- ❻ Amazon Echo – **Advanced Diversification** through product innovation in a market that was new to Amazon.
- ❼ Amazon Prime Air – **Advanced Diversification** into a market that's new to all with a service that others are experimenting with but is new to Amazon.
- ❽ Amazon Prime – **Market Innovation** through pushing the existing loyalty program into previously unexplored markets.
- ❾ Dash Button – **Product Innovation** to address one of the company's existing markets with a product + service unlike any we'd previously seen.





WORKSHEET

ANSOFF MATRIX

What would Apple do?

Apple had a long run of high profile, high drama launches that put innovation at the fore. That said, many will point out that Apple is often in the role of fast-follower, permitting others to battle the headwinds of being first to market, then swooping into market leadership with a more considered and better designed user experience. Keep this in mind as you use the Ansoff Matrix to map some of Apple's past initiatives in this exercise.

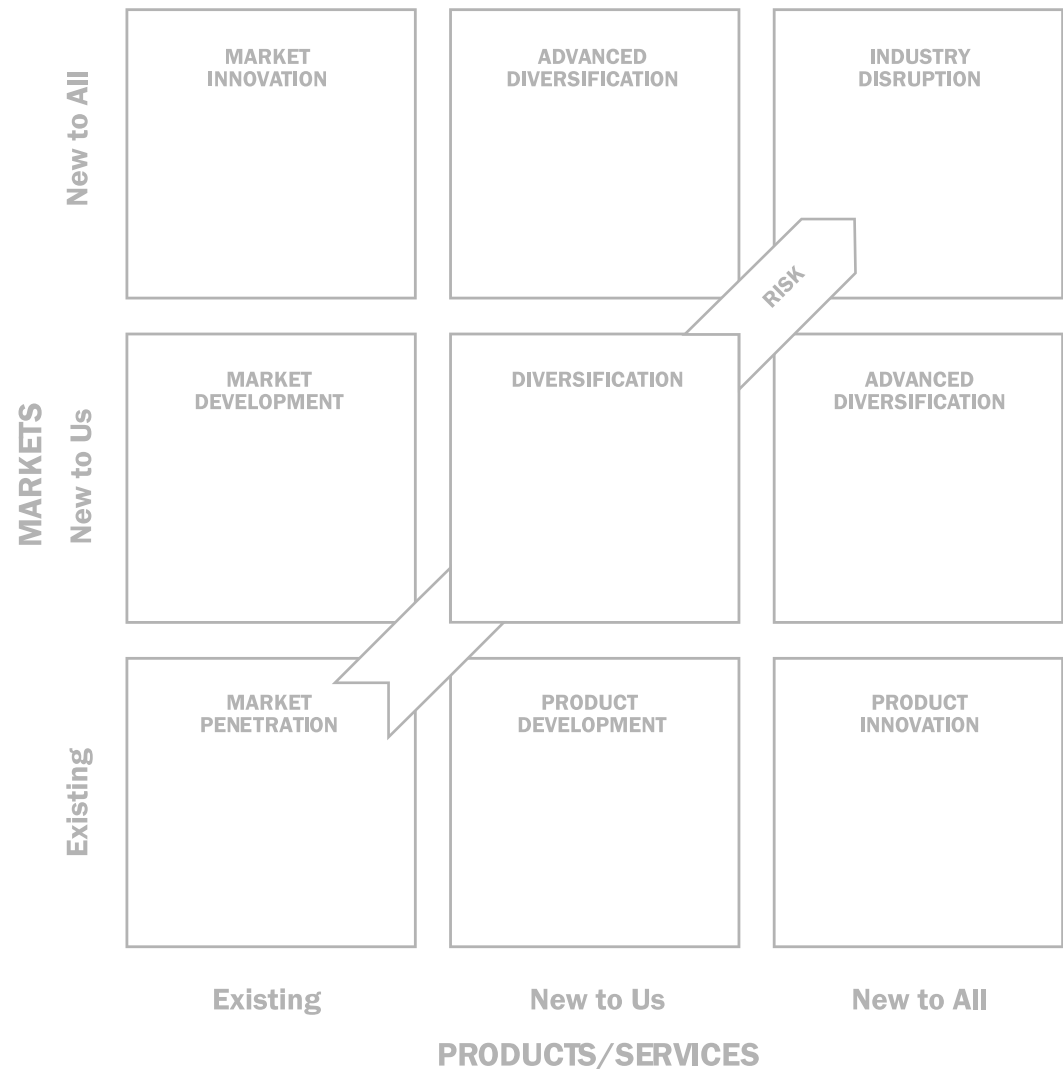
- 1 Write each initiative on a small Post-It.
- 2 Group the initiatives beneath the horizontal axis according to whether they were existing, new to Apple, or new to all at the time Apple launched them.
- 3 Move them up onto the matrix by considering whether each was an existing, new to Apple, or new to all at the time Apple launched them. Hint: When we mapped this, we ended up with one initiative in each sector of the matrix.
- 4 If you're unfamiliar with any of the initiatives, or want to understand more about the context at the time of launch, you can refer to this history of Apple, or timeline of Apple products.
- 5 Check your answers against our mapping at the bottom of this sheet.

ADVANTAGES TO MAP

- 1 Apple Retail (and Genius Bar)
- 2 Apple Watch
- 3 Mac for Education
- 4 iPhone(S)
- 5 Cinema Display
- 6 Multi-Touch Gestures
- 7 iPhone + App Store (Original)
- 8 iPod & iTunes (Original)
- 9 Newton

ANSWER KEY

PRODUCTS/SERVICES			
6	5	4	
6	2	3	MARKETS
7	8	1	



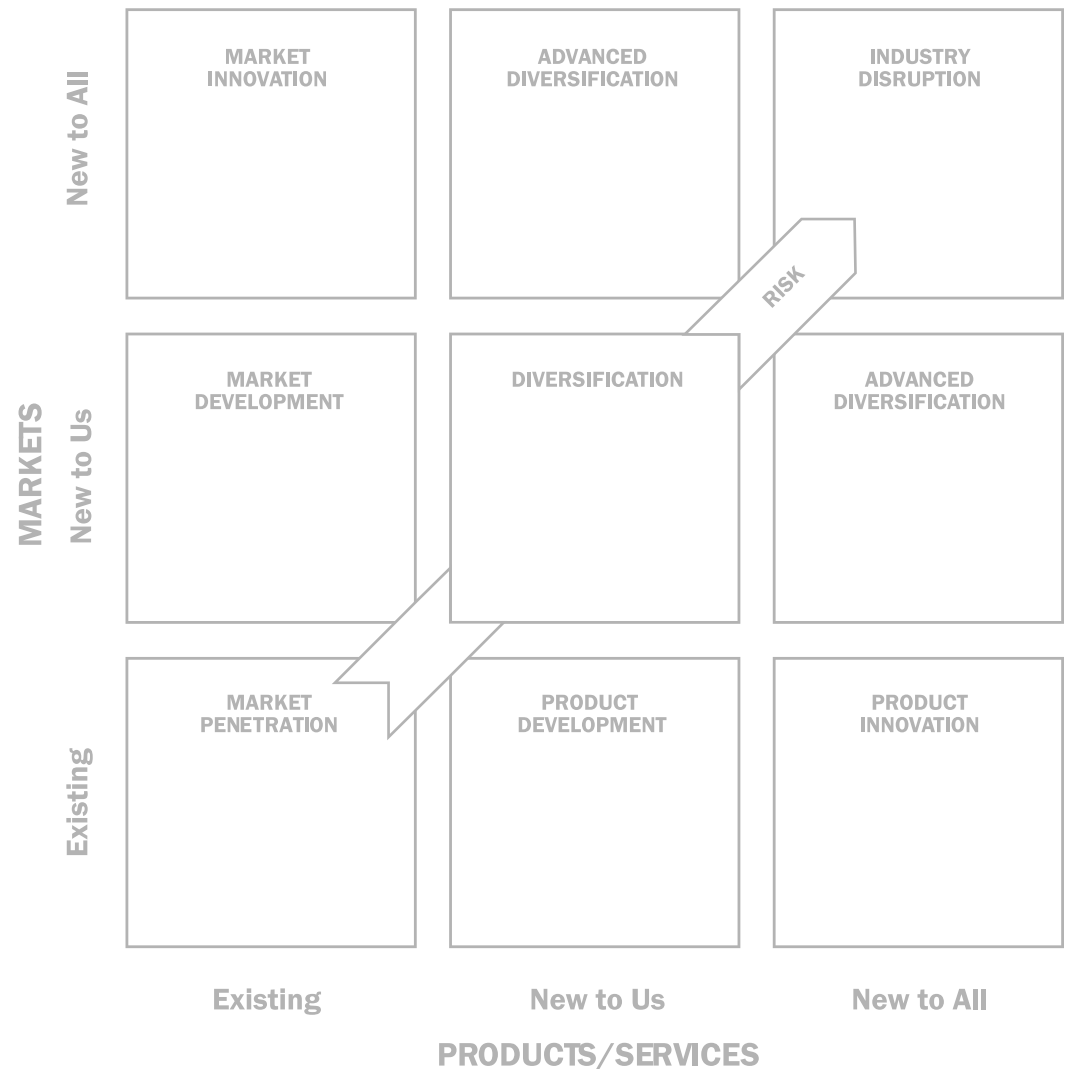


ANSOFF MATRIX

Map your initiatives

The purpose of this exercise is to help you contemplate your own organization's innovation stance and practices. To provide perspective on your initiatives, we'll apply the Ansoff Matrix and use this to evaluate whether you're **playing to win**, **playing not to lose**, or both. This can be done individually or as a team to promote discussion, debate, and alignment.

- 1 Use small Post-Its to jot down as many of your organization's initiatives from the past 24 months as possible. Answer these questions to prompt ideas: What are the major initiatives that your company is working on or has recently launched? What new markets are you moving into, and what initiatives are taking you there? What products or services are being developed?
- 2 Position them on the Ansoff Matrix according to their position on the Market and Product/Service axes, keeping in mind that having initiatives up and to the right of the sheet isn't the goal. For instance, there's nothing wrong with Market Penetration—this is often low hanging fruit.
- 3 Once everything is positioned, note whether there are areas of concentration in the matrix—the shaded areas up and to the right indicate the zones of **playing to win**, the unshaded sectors down and to the left are **playing not to lose**. Discuss the implications of each, reviewing the Aligning Innovation & Growth Strategy section of our course as needed.





ORGANIZING FOR INNOVATION

Developed organizations and new ventures are optimized to a very different set of objectives. In a new venture, the team is focused on identifying an opportunity and advantage, then searching for a repeatable business model to address it. In a developed organization, the business model is already known, and the focus is on executing it. The established business operates in an

exploitative mindset, whereas the new venture is inherently explorative. We've identified Five Degrees of Freedom that are critical to support the explorative business and the autonomy it requires. You can review them in the Grant & Defend Autonomy section of our course.

	Exploitative Business	Explorative Business	
Strategic Intent	Profit	Innovation, growth	
Competencies	Operational	Entrepreneurial	
Culture	Efficiency, quality, risk mitigation	Speed, flexibility, experimentation, risk taking	Five Degrees of Freedom FREEDOM TO FAIL
Leadership	Authoritative, hierarchical	Visionary, flat	FREEDOM TO ACT
Structure	Formal, procedural	Informal, adaptive	FREEDOM TO ORGANIZE & REORGANIZE
Critical Tasks	Operations, optimization, incremental innovation	New products, adaptability, breakthrough innovation	FREEDOM TO OPERATE
Success Metrics	Margins, return on investment	Growth, milestones	FREEDOM TO ATTACK



EXERCISE

ORGANIZING FOR INNOVATION

Declaration of Independence (1/2)

Step 1: Rate how you believe decision makers in your organization would respond to the following statements below.

**STRONGLY
DISAGREE**
1

DISAGREE
2

NEUTRAL
3

AGREE
4

**STRONGLY
AGREE**
5

We must grant our new venture the **freedom to fail**.

If we're unable to fail, we're unable to take risks. If we're unable to take risks, we can't innovate.
In a new venture, risk taking is a job requirement.

☐☐☐☐☐

We must grant our new venture the **freedom to act**.

Our team needs to be able to make bold calls fast, and to make those calls from close to the action, not from a distance through a tall hierarchy. The leadership of a new venture must be trusted, and accordingly, empowered.

☐☐☐☐☐

We must grant our new venture the **freedom to organize & reorganize**.

A dynamic, rapidly evolving business requires the ability to organize and reorganize its structure and team optimally, with regard only to its own best functioning for its current stage of development – it doesn't need to conform with the structures typical of more developed businesses.

☐☐☐☐☐

We must grant our new venture the **freedom to operate**.

Our venture's needs differ greatly from those of developed business, so the tools, infrastructure, partnerships, and other operational matters may differ significantly as well. We need to avoid burdening a new venture with externally imposed systems, policies and procedures.

☐☐☐☐☐

We must grant our new venture the **freedom to attack**.

Our venture should be empowered to take an approach that is orthogonal or even directly antagonistic to competitors or even our parent business, investors, etc. Better to self-disrupt than to have an outsider take us out at the knees.

☐☐☐☐☐



Step 2: Total the readiness scores from the previous sheet. Each “Strongly Disagree” contributes 1 point, each “Disagree” 2 points, and so on.

- **5–12 points** – Not ready for venture design. There’s significant constraint on the venture, likely in several areas. Discuss and resolve, starting with the lowest ratings.
- **13–20 points** – Venture design is an option, but areas of constraint should be called out and prioritized for improvement. Work continuously to build the trust needed to increase the freedom afforded to the team.
- **21–25 points** – Venture design recommended. Take the opportunity to work on the areas of greatest constraint as you proceed.

Ultimately, the thoughtfulness and discussion that the exercise prompts is more important than the score itself. If doing this exercise as a team, step through the freedoms in order, discussing each member’s rating and rationale. Compare total scores, and note areas of particular constraint on the venture.



CONTINUED LEARNING

ARTICLES

A selection of the resources I referenced

- **Transient Advantage**, Harvard Business Review
- **Enduring Ideas: The three horizons of growth**, McKinsey Quarterly
- **The Ambidextrous Organization**, Harvard Business Review
- **Lean Innovation Management – Making Corporate Innovation Work**, Steve Blank
- **The GV Research Sprint**, GV
- **Good Enough Decision Making**, Steve Blank
- **‘Founder’s Mentality’ Is a Company’s Best-Kept Secret**, Fortune

BLOGS

Articulate people with strong perspectives

- **Fred Wilson** – Many worthy posts from this prolific, approachable and insightful partner at Union Square Ventures.
- **Steve Blank** – A trove of information and insights from the serial entrepreneur, author and educator.
- **Paul Graham** – Check out the “essays” – engaging musings from this cofounder of Y Combinator.

READING LISTS

AKA, “drinking from the fire hose”

- **Tom Eisenmann** – Overwhelming, yet well-organized resource from this Harvard Business School professor – I’d start with the Startup Mindset section.
- **Steve Blank** – An exhaustive list of worthwhile books for startups.

DESIGN INSPIRATION

A reminder of what design does

- **99% Invisible** – Podcast exploring the full scope of design and its overlooked manifestations.
- **Design for the Real World** – Victor Papanek’s classic design manifesto and critical call to action.
- **DesignMind** – frog’s own blog.
- **WIRED by Design Conference** – The keynote I gave that forced me to begin structuring my ideas on venture design to share them with others. Be sure to watch some other talks – I found **Bjarke Ingels** particularly inspiring.

AND FINALLY...

Be sure to check out other relevant courses in the **Design Thinking Series** from frog, including Prototyping with Randall Elliott and Lead Change in your Organization by Turi McKinley.

You can always find **frog** and **me** on twitter.

Enjoy!